
ANNUAL REPORT

OKLAHOMA OFFICE OF THE AUDITOR AND INSPECTOR



2002

Clifton H. Scott
State Auditor and Inspector



OKLAHOMA

STATE AUDITOR AND INSPECTOR

**ANNUAL REPORT
FOR THE FISCAL YEAR ENDING JUNE 30, 2002**

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CLIFTON H. SCOTT
STATE AUDITOR AND INSPECTOR

STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR
OKLAHOMA CITY

2300 North Lincoln, Room 100
Oklahoma City, OK 73105-4896
405/521-3495

November 1, 2002

The Honorable Frank Keating
Governor of the State of Oklahoma
Room 212, State Capitol
Oklahoma City, Oklahoma 73105

Dear Governor Keating:

It is my privilege to submit, herewith, a report concerning the duties, activities and accomplishments of the Office of State Auditor and Inspector for the fiscal year ending June 30, 2002, in accordance with 74 O.S. §216. The information summarized herein reflects the productivity of the members of the staff, details of which are contained in the audit reports on file in this office.

I would like to take this opportunity to commend the officials and employees of state, county and local agencies for the splendid work performed each and every day of the year. Auditing of any governmental entity is critical by nature. However, these criticisms should not destroy the effect of the many positive attributes of government. The majority of government employees are sincere and dedicated. These employees are constantly striving for efficiency and excellence in government. It is our job to audit the work performed by these employees; however, it is also our job to assist them in attaining the efficiency and excellence to which they aspire.

The information submitted herein offers a brief introduction and overview of the Office of State Auditor and Inspector, a summary of the responsibilities and general accomplishments of each division within the Office, a detailed listing by division of each report on file, and a narrative of the Constitutional authority for the Office of State Auditor and Inspector.

We take great pride in presenting the accomplishments represented throughout this report. It is our goal to continue to provide the necessary audit coverage, taking into consideration the rising costs, limited appropriations and increasing volume of work.

Please accept this report on behalf of myself and the members of the staff.

Respectfully submitted,

A handwritten signature in cursive script that reads "Clifton H. Scott".

CLIFTON H. SCOTT
State Auditor and Inspector

STATE AUDITOR AND INSPECTOR
ANNUAL REPORT
FOR THE FISCAL YEAR ENDING JUNE 30, 2002

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* * * Introduction * * *

Oklahoma State Auditor and Inspector, Clifton H. Scott, is elected by the citizens of Oklahoma in accordance with *Article VI, Section 1 of the Constitution of the State of Oklahoma*. Clifton Scott has served as State Auditor since 1983, having been re-elected for a fifth term in November 1998.

Through the audit function, the Office of State Auditor and Inspector performs independent, objective and comprehensive evaluations of the practices and operations of state, county and local governments. This information provides government officials and citizens of Oklahoma insight into the operations of agencies, boards, commissions and governmental offices dealing with public funds.

Public funds are handled through various agencies of state, county and local government. The State Auditor and Inspector's Office conducts audits of these entities in an effort to improve government and enhance public accountability.

Audit functions are conducted in accordance with Generally Accepted Auditing Standards (GAAS) as promulgated by the American Institute of Certified Public Accountants (AICPA) and in accordance with Government Auditing Standards issued by the Comptroller General of the United States. Reports are issued at the conclusion of the audit and are available as public documents. During the annual period ending June 30, 2002, the office issued a total of four hundred twenty-eight (428) reports.

It is the responsibility of each governmental entity to carry out legislative programs and to properly use public monies. The responsibility of the State Auditor and Inspector's Office is to audit the income and expenditures of public funds and to report those findings to the Governor, Legislature, the governmental entity and to the public. Resolving issues noted in the audit reports is the responsibility of the governing board, the Attorney General or the District Attorney.

Another important function of the Office of State Auditor and Inspector is to monitor new legislation impacting the office. At the end of each legislative session, these bills are reviewed and as a result, modifications to office operations and audit programs are implemented as needed. These modifications may include changes in the scope or coverage of particular audits, special reporting or in office procedures.

The office provides support and training for elected county officials concerning purchasing, standard accounting procedures, new legislation affecting those procedures and sound management practices.

The major divisions within the Office are:

- Administration Division
- County Audit Division
- Management Services Division
- Minerals Management Audit Division
- Special Audit Division
- State Agency Audit Division

Each of these divisions will be discussed in detail in this report under independent headings.

* * * Objectives * * *

The objectives of the State Auditor and Inspector's Office are to provide comprehensive audits of the collections, receipts, obligations, expenditures and use of public funds; to identify deficiencies in financial and compliance practices and their causes; to offer constructive recommendations to assure full compliance with both the intent and the requirements of state and federal statutes; and to prescribe forms and accounting procedures for county government.

...fiscal accountability for public funds is of primary importance.

The need to maintain fiscal accountability for public funds is of primary importance. A well designed and functioning accounting system is the key to maintaining an adequate level of accountability. The audit function, as performed by our auditing staff provides comments on internal control, which enhances the prevention and detection of accounting system breakdowns, thereby preventing the loss of government assets. The State Auditor and Inspector promotes the development of accounting at a level that will ensure adequate accountability of public funds, through our monitoring presence and by recommending corrective action. Additionally, our audit reports often cite recommendations for improving the economy, efficiency and quality of services delivered by the various entities that we audit.

The audit coverage, by providing a continual flow of fiscal and compliance information, can aid in significant improvements in state and local government operations. Audit programs and reports are updated and reviewed continuously to keep our office responsive to the needs of the citizens and in compliance with the intent of the Legislature. All staff audit teams are trained and knowledgeable concerning standard auditing procedures for the government entities to which they are assigned. The audit teams attend several continuing professional education programs and in-house training seminars each year.

Our office is responsive to the needs of citizens.

Organization and Responsibilities

(Summary by Division and Department)

CLIFTON H. SCOTT
STATE AUDITOR AND INSPECTOR

Administration

Abstractor's Licensing and Registration

Accounting

Auditor Registration

State Board of Equalization

Continuing Professional Education

Information Services

Horse Racing

State Pension Commission

Public Trusts

Quality Control

The State Auditor and Inspector, Clifton H. Scott, is the chief executive officer of the Office. The Administration Division consists of the State Auditor and Inspector, the Deputy State Auditor and Division Directors. Each Director is responsible for the planning and administration of their division within the organization. The Administration Division is the "umbrella" under which all other divisions function. Directors also assist in the supervision of many internal functions of the Office and coordinate matters concerning budgeting, personnel, office policy, consistency in audit coverage and general administration of the office.

Many of these functions are segregated into specialized departments within the Administration Division. These departments are instrumental in fulfilling the Constitutional and legislative duties of the Office of State Auditor and Inspector. The individual departments are summarized as follows: Abstractor's Licensing and Registration, Accounting, Auditor Registration, State Board of Equalization, Continuing Professional Education, Information Services, Horse Racing, State Pension Commission, Public Trusts and Quality Control.

* Abstractor's Licensing and Registration *

In response to the request of abstractors across the State, the Oklahoma Legislature in 1984 passed a law regulating the industry. The State Auditor and Inspector was charged with the duty of administering the Oklahoma Abstractor's Law (74 O.S. §227.10 *et seq*).

*The SA&I is responsible
for regulating the
Abstract industry.*

The Abstractor's Department of the State Auditor and Inspector's Office is authorized by statute to regulate the industry and issue certificates of authority, abstractor's licenses and permits to build abstract plants.

The Abstract Department is staffed by an Abstractor Registrar and Secretary. At the end of the 2002 annual period, one hundred thirty (130) certificates of authority and nine hundred thirty-five (935) abstractor licenses were issued.

The Department has promulgated rules and regulations and prescribed a uniform abstract certificate to which all abstract companies must conform, standardizing abstract activity throughout the State. Copies of these documents were distributed to all abstract companies in Oklahoma.

All persons who compile abstracts in the State must be licensed. All abstract licensees must submit to the supervision of a holder of a certificate of authority.

The Abstractor Registrar attends abstract industry meetings regularly, participates in the presentation of programs and keeps the industry informed of developments and changes through bulletins as the need arises.

* Accounting *

The Accounting Department is responsible for daily internal operations. Financial responsibilities include purchasing, budgeting, billing and claims processing. All personnel and employee benefit information is maintained by this Department, as well as an information system containing audit tracking and time accounting data.

The Accounting Department maintains all personnel and benefits information.

The Print Shop Section provides the printing, binding, distribution and file maintenance of all reports published by the State Auditor and Inspector's Office. This Section is also responsible for archiving reports and distributing supplies and equipment.

* Auditor Registration *

Oklahoma Statutes (74 O.S. §212A) requires all governmental entities, as defined by the Governmental Accounting Standards Board, to have an audit of their financial statements in accordance with Government Auditing Standards.

Oklahoma law cited above also requires all auditors of governmental entities to register with the Oklahoma Accountancy Board. Governmental auditors must satisfy both the Oklahoma Accountancy Board and the State Auditor and Inspector's Office that the auditor has met the criteria defined by the Government Auditing Standards prior to entering into audit contracts.

The State Auditor and Inspector's Office issued guidance on May 1, 1995, for all auditors that perform audits of governmental entities, entitled Oklahoma Reporting for Independent Auditors Engaged in Audits of Governmental Entities. This booklet contains the purpose of the statute, a question and answer section of the most commonly asked questions concerning this statute, along with any technical bulletins issued by this office for guidance. It also contains direction for the auditor in determining whether the auditee meets the criteria as a governmental entity.

Copies of all audit reports of governmental entities must be filed with the State Auditor and Inspector. Any Public Accountant or Certified Public Accountant filing a report with the State Auditor and Inspector must pay a filing fee of forty dollars (\$40.00) to ensure that all audits of governmental entities are in accordance with Government Auditing Standards. This legislation pertains to all audits conducted by external auditors for any state agency, board, commission, school district, city, town, public trust or other governmental entity. All audits filed with the State Auditor and Inspector are reviewed to ensure compliance with Government Auditing Standards and the Oklahoma Statutes. Approximately 2,059 audits of governmental entities were reviewed by the State Auditor and Inspector's Office for the annual period ending June 30, 2002.

*2,059 audits of
governmental entities
were reviewed by the
SA&I in FY 2002.*

Reports must be in a form consistent with the AICPA Audit and Accounting Guide Audits of State and Local Governmental Units. State agencies or other pass-through grantors of federal financial assistance may not require additional reporting from a grantee, in addition to the required federal reports, without permission from the State Auditor and Inspector. As of the date of this report, no additional reports have been approved.

The list of "Independent Auditors Engaged in Audits of Government Entities" shows 300 accountants and firms listed as eligible to perform governmental audits.

* State Board of Equalization *

The Oklahoma State Board of Equalization is a constitutionally authorized board comprising seven (7) ex-officio board members. The members include the Governor, Lieutenant Governor, State Treasurer, State Auditor and Inspector, Attorney General, Superintendent of Public Instruction and Commissioner of the Department of Agriculture. The Governor serves as Chairperson and the State Auditor and Inspector serves as Secretary to the State Board of Equalization.

The principal duty of the State Board of Equalization is to adjust and equalize the valuation of real and personal property of the seventy-seven (77) counties and assess all railroad, airline and public service corporation properties. The Board also provides an estimate of revenue that will be available for appropriation by the Legislature.

The Board provides an estimate of revenue that will be available for appropriation by the Legislature.

During this annual period, the Board met six (6) times and certified assessed valuations of two hundred thirty-nine (239) railroads, airlines and public service corporations.

The Board also received approximately fifteen hundred (1,500) annual budgets that included counties, cities, towns, school districts and other taxing jurisdictions within the State of Oklahoma. Budgets are reviewed to verify that all valuations and levies reflected agree with those certified by the local official.

* Continuing Professional Education *

The State Auditor and Inspector's Office is dedicated to maintaining an educated and informed audit staff. Staff auditors are required to complete a minimum of twenty (20) hours of continuing professional education (CPE) annually to remain current with any changes to auditing professional standards.

Staff assigned to audit federal programs is required to complete eighty (80) hours continuing professional education in a two-year period. This ensures that the Office meets Government Auditing Standards issued by the Comptroller General of the United States.

Of those eighty (80) hours, twenty-four (24) must be in subjects directly related to the government environment and to governmental auditing.

The scheduled CPE seminars for the year have been selected to keep the audit staff well versed with current developments and to sharpen their existing skills allowing for staff development at all levels. Instructors of the Continuing Professional Education program include a combination of the State Auditor and Inspector's staff and other nationally-recognized experts in their fields.

In addition to the participation of the State Auditor and Inspector's staff, the excellent CPE Program has also attracted many financial officers and internal audit department employees from other state agencies. More than four hundred (400) participants from approximately sixty (60) state agencies and educational institutions attended classes during the year.

CONTINUING EDUCATION SEMINARS PERIOD ENDING JUNE 30, 2002		
<u>Date</u>	<u>Seminar</u>	<u>Hours</u>
July 16	Patrol Response to Computer Crime <i>by Clayton Hoskinson, DFE, DFCE Redland Community College</i>	8
August 6-8	Forensic Computer Science <i>by Clayton Hoskinson, CFE, CFCE Redland Community College</i>	24
August 27	Paperless Workpapers and an Overview of Benford's Law <i>by Ann Cole, Manager, Information Services Division Director and Lynn Dowds, Information Services Division Manager Office of the State Auditor and Inspector</i>	8
September/October	Basic Network Users Course <i>by Allan Grubb, Information Services Division Office of the State Auditor and Inspector</i>	2
September/October	County Auditor Fall Training <i>by Rod Dillard, Allan Grubb, Shane Brown, Various Divisions Office of the State Auditor and Inspector</i>	8
November 14	2001 Ethics Training <i>by John Rahlhal, Manager, Quality Control Office of the State Auditor and Inspector</i>	3

**CONTINUING EDUCATION SEMINARS
PERIOD ENDING JUNE 30, 2002**

<u>Date</u>	<u>Seminar</u>	<u>Hours</u>
March 22	Computer Security Awareness <i>by Ann Cole, Director, Information Services Division Office of the State Auditor and Inspector</i>	8
May 13	Building an Audit Report <i>by Carol Bomhoff, Information Services Division Office of the State Auditor and Inspector</i>	5
June 6	OMB A-87, Cost Principles of Accounting <i>by Phil Simard, MBA, Director, Mid Atlantic Field Office US Department of Health and Human Services, Division of Cost Allocation</i>	8
June 13 - 14	Statistical Attribute Sampling <i>by Steve Tinsley, Deputy State Auditor Office of the State Auditor and Inspector</i>	14

The inclusion of a larger spectrum of officials from so many different agencies has significantly enhanced accountability throughout State government by educating internal auditors and agency financial officers on developments and increasing awareness of the importance of strong internal controls and proper policies and procedures.

The Continuing Professional Education Coordinator for the State Auditor and Inspector's Office performs various duties to ensure that a quality training program is provided. Those duties include recruitment of instructors, scheduling, development of course instructional material, printing of course workbooks and logistical concerns. Extensive record keeping for all participants is also necessary to ensure the requirements of the General Accounting Office (GAO) and the Oklahoma Accountancy Board are met.

The CPE Program of the State Auditor and Inspector's Office has grown to be recognized throughout the State for its excellence.

* Information Services Division *

The Information Services Division's responsibilities encompass the following three service areas: Administrative Services, Research and Development Services, and Information Systems Auditing Services. Each service area serves both state and local governments with Information Technology resources.

The Administrative Services area provides technical support for all software applications and computer hardware used within the agency. During FY-2002, this service area provided network support for fifty-nine County Assessors and thirty-seven County Treasurers. The computer support provided to these offices consists of the maintenance and software support of the Assessment Administration and Property Tax Collection program and the county office's computer hardware. This staff area also provides software development services and training to these county offices.

The Research and Development Services area researches, recommends, and when necessary, develops solutions concerning technology issues. This area also assists the Association of County Clerks and Deputies of Oklahoma by providing a consultant to their Records Preservation Technology Committee. During FY-2002, this area assisted the Technology Committee in developing a strategic plan, a template for four levels of disaster recovery plans, and a *Guidelines for Preserving Public Records Through Technology* handbook.

The Information Systems Auditing Services (ISAS) provide the managers of the State of Oklahoma's data resources with useful information, so they can successfully manage the risk associated with implementing and using technology. During fiscal year 2002, ISAS provided the following services to the State of Oklahoma and Oklahoma County Governments:

- Conducted 20 on-site visits to Oklahoma County offices to review information system general controls and to analysis data obtained from their local systems.

-
- Performed general information system control reviews as part of the State Agencies Division's financial audits on the Oklahoma Health Department, Oklahoma Tax Commission, Oklahoma Department of Education, and Oklahoma Office of State Treasurer.
 - Issued information system review reports on Oklahoma Department of Tourism and OneNet, the official state communications system.
 - Assistance was also provided to assess the internal control risk for the statewide CAFR audit and the State of Oklahoma Single Audit.
 - Provided Computer Forensic services to the Special Investigative Division concerning cases that involved the recovery of information stored on computers.
 - Provided consulting services for the statewide implementation of the PeopleSoft computer software. This Enterprise Resource Planning (ERP) system will fully integrate the human resources, budgeting, payroll, purchasing, and accounting functions for the state's Office of Personnel, Office of State Finance, and Department of Central Purchasing. Our role is to observe the activities and progress of the implementation team, to provide consulting services on information security issues, and to ensure adequate audit trails are put in place and a separation of key duties is achieved within the system.
 - Provided support to the Association of County Clerks and Deputies of Oklahoma Technology Committee. The Committee with the assistance of our office published guidelines for County Clerks implementing technology into their offices. The emphasis was to ensuring that adequate internal control procedures are taken when using technology to preserve the County's permanent records.

** Horse Racing **

As authorized by 3A O.S. §204, the State Auditor and Inspector's Office has entered a contract with the Horse Racing Commission to audit and inspect, at regular intervals, all horse race meets held in the State of Oklahoma. In addition, 3A O.S. §205.6a authorizes the State Auditor and Inspector's Office to audit and inspect off-track wagering facilities in the State of Oklahoma. 3A O.S. §205.7 authorizes the State Auditor and Inspector's Office to audit and inspect out-of-state simulcast races received by Oklahoma horse racing facilities and off-track wagering sites. During this annual period, staff members audited race meets and continued their training in the auditing of pari-mutual pools and related commissions. Development of audit procedures of pari-mutual pools is an ongoing process. Computerized tracking of certain records related to the audit of horse race meets is in progress.

** State Pension Commission **

The State Auditor and Inspector, or his designee, serves as a member of the Oklahoma State Pension Commission in accordance with 74 O.S. § 941. This office also provides administrative support to the Commission. The Oklahoma State Pension Commission is comprised of seven members including the State Auditor and Inspector or his designee, the Director of the Department of Central Services, the State Treasurer (or their designees); one member of the Senate appointed by the President Pro Tempore of the Senate, one member of the House of Representatives appointed by the Speaker of the House of Representatives, and two members appointed by the Governor.

The principal duty of the Commission is to review and publish comparative quarterly and annual performance reports analyzing the investment performance of Oklahoma's seven pension systems, specifically for firefighters, police, justices and judges, law enforcement personnel, teachers, public employees and wildlife department personnel.

The Commission is also directed by statute to hire one or more pension fund management consultants to assist the Commission in accomplishing its objectives. The consultant is considered a fiduciary of the state retirement systems.

During this annual period, the Commission met four (4) times and presented eight (8) reports.

* Public Trusts *

The Public Trust Department monitors a total of 1,167 public trusts and continues to actively pursue any noncompliance with filing requirements. Our office has made significant strides toward informing trusts of their responsibility to initiate audits. Due to this effort, 1,044 trusts were in compliance and 122 trusts were noncompliant during the fiscal year ending June 30, 2002.

As of June 30, 2002, there were ninety-eight (98) hospital trusts. As required by *19 O.S. §794*, all county-owned hospitals must file an annual audit with this office. Oklahoma has sixteen (16) county-owned hospitals, with three (3) being noncompliant. As required by *60 O.S. §§ 180.1 and 180.2*, all public trusts are required to file annual audits with this office. Seventy-three (73) of Oklahoma's eighty-two (82) hospital trust authorities were in compliance with these statutes as of June 30, 2002.

As required by *74 O.S. §212A*, all government entities receiving public funds shall file with this office a financial statement audit in accordance with Generally Accepted Auditing Standards and Generally Accepted Government Auditing Standards, as of the end of each fiscal year. During this period there were a total of 1,135 general audits; 1,003 were in compliance and 132 were noncompliant. The general audits are listed as follows:

Colleges	27	Schools	589
Conservation Districts	92	Miscellaneous	139
Rural Water Districts	288		

There are a total of 586 cities in Oklahoma, 528 were in compliance and 58 were noncompliant as of June 30, 2002.

* Quality Control *

Quality Control ensures audit policies and procedures are adopted and followed for the organization.

The Quality Control Department is responsible for coordinating the internal quality control review program. This includes ensuring that audit policies and procedures are adopted and followed for the organization.

Quality Control is also responsible for ensuring that all audit reports meet statutory and technical criteria through the use of a quality control checklist.

The Quality Control Department coordinates the preparation for the external quality control review or peer review that is held once every three (3) years to meet the requirements of Government Auditing Standards.

Additionally, the Department is responsible for researching technical and professional literature, updating the Office technical library, as well as updating the staff on new developments in the government accounting and auditing sector.

The County Audit Division is responsible for conducting financial and compliance audits in all seventy-seven (77) counties across the State, as well as forty-five (45) Emergency Medical Service Districts. County Division auditors also conduct cash counts and reconcile the accounts maintained by each county treasurer. When there is a transition of elected officials, auditors perform specific procedures covering the internal controls and compliance requirements of the Office. Varying audit procedures are performed and reports published for each of the twenty-seven (27) district attorneys.

These audits are conducted on-site; therefore, three separate branch offices in Ada, Tulsa and Weatherford are maintained to minimize travel costs. Each branch office is staffed with an audit manager, three audit supervisors and approximately ten auditors.

Each year new standards, laws and forms are introduced which affect the accounting systems and the internal control of county offices. As a result, this Division's director, audit managers and supervisors revise and update audit programs and report formats annually. During the year we began using newly acquired auditing software to examine, test and analyze stored computer data files.

The County Audit Division assists the Management Services Division with training seminars and workshops held for county officers. Consulting services are also provided to the county officers regarding maintenance of proper accounting records and execution of proper accounting procedures. These services provided to county officers have been extremely beneficial to the audit staff, the officials and the taxpayers of Oklahoma. The result is more efficiently managed offices creating a more reliable audit trail and increased accountability to the taxpayers.

Consulting services provided to county officers have been extremely beneficial to the audit staff, officials, and the taxpayers of Oklahoma.

A list of reports issued during this period appear in the "Detailed List of Audit Coverage" at the back of this report.

The Management Services Division of the State Auditor and Inspector's Office provides technical assistance to all county officials, and other political subdivision, as mandated by the Constitution of the State of Oklahoma and the Oklahoma State statutes.

Management Services consists of personnel technically trained to answer questions.

Auditing of any governmental entity is critical by nature, and as such, should provide the personnel qualified to answer any questions arising from those criticisms. The Management Services Division consists of personnel technically trained to answer those questions.

The State Auditor and Inspector's Office is directed by State statute to prescribe the forms used by county officials in maintaining the books and records of the county. The Division made revisions to ninety-six (96) existing forms for use by county officials. This responsibility belongs to the staff members of the Management Services Division.

Another function of the Division is to continuously update and revise the Statute Reference Manual, an ongoing project which requires constant attention to new laws enacted by the State Legislature as well as the modification or amending of current laws of the State of Oklahoma. In addition to the manual mentioned above, the Division tracked two hundred thirty-seven (237) bills in the House and Senate which pertain to county government. A digest of House and Senate Bills, passed during the legislative session, is forwarded to all county officials.

During this annual period, the Management Services Division issued twenty-seven (27) bulletins to county officers advising them of changes in accounting procedures, current forms to be used and notification of statewide meetings.

The State Auditor and Inspector's Office routinely tracks Attorneys' General's Opinions which may affect county government.

During the annual period ended June 30, 2002, the Management Services Division personnel prepared materials and gave presentations at numerous meetings as noted on the following page.

**COUNTY OFFICER SCHOOLS
AND MEETINGS**

County Assessors
Annual Meeting
August 2001

County Officers and Deputies Association of Oklahoma
Fall Meeting
September 2001

Northeast District County Officers and Deputies
Fall Meeting
October 2001

Northwest District County Officers and Deputies
Fall Meeting
October 2001

County Clerk Technology Workshop
Oklahoma City
October 2001

Festival and Fair Association Accounting Class
November 2001

Association of County Commissioners of Oklahoma
November 2001
January 2002
April 2002

Purchasing Workshop
Oklahoma City, November 2001
Norman, January 2001
Tulsa, March 2002
Oklahoma City, 2002

County Officers and Deputies Association of Oklahoma
Winter Conference
February 2002

Sheriffs' Training Workshop
Western Hill, March 2002

Southwest District County Officers and Deputies
Quartz Mountain Lodge
March 2002

Northwest District County Officers and Deputies
Alva
March 2002

County Clerks Association
Annual School
May 2002

Court Clerks' Association
Annual School
May 2002

County Treasurers' Association
Annual School
May 2002

Southeast District County Officers and Deputies
Spring Meeting
May 2002

County Excise Board Training
Wilburton
June 2002

S.A. & I. Reporting Requirements for County Clerks
Oklahoma City
January 2002

The Secretary of the Interior authorizes the SA&I to conduct audits related to mineral royalty payments.

As authorized by *Section 205 of the Federal Oil and Gas Royalty Management Act of 1982*, the State Auditor and Inspector's Office is assisting the Federal Government in the performance of mineral royalty audits. In accordance with the above-mentioned Section, the Secretary of the Interior authorized the Minerals Management Service (MMS) to delegate authority to the State of Oklahoma, State Auditor and Inspector, to conduct audits related to mineral royalty payments made to MMS which are attributable to federal lands within the State of Oklahoma. The term of this delegation of authority was for a three-year period beginning October 1, 1991, and included an option exercisable for three (3) additional years. An additional two-year option period has been extended by the MMS, covering the authority through September 30, 1999. This two-year extension was provided to allow time for the MMS to implement required changes in the contract arrangements between the MMS and the states. These changes were caused by the 1996 passage of the *Royalty Simplification and Fairness Act (RSFA)*¹. An additional contract was signed beginning October 1, 1998 for three years with an exercisable option for another three years. Costs of approximately \$400,000 are projected to be reimbursed to the State of Oklahoma by the MMS for the federal fiscal year October 1, 2001 through September 30, 2002.

Although there are a variety of federal lease types in Oklahoma, each with different revenue distribution requirements, the State receives 50% of royalty payments which are paid on the most common types of leases. During the most recently completed federal fiscal year for which payments and audit results are available, royalty payments totaling approximately \$6,000,000 were made to Oklahoma. As a result of the audits performed by the State Auditor and Inspector, approximately \$100,000 in royalty under-payments was collected, with an additional \$40,000 paid in interest on these collections.

Staff assigned to audit federal royalty payments is required to complete eighty (80) hours of continuing professional education in a two-year period, a policy implemented by the Office in

compliance with Government Auditing Standards, as adopted by the General Accounting Office.

¹RSFA created significant changes in some of the methods and procedures used to manage the federal royalty program. It also created an option for states to elect to perform some of the royalty management functions presently performed by the MMS. Future decisions made by the State pertaining to this option could result in additional revenues and/or cost reductions for Oklahoma.

The Office of State Auditor and Inspector is charged with the responsibility of conducting limited examinations, cursory reviews and investigative audits of government entities upon a request of a petition of citizens of the State, a request of the Governor, the Speaker of the State House of Representatives, the President Pro Tempore of the State Senate, the respective District Attorney, any Board of County Commissioners, or the entity's governing board, in accordance with 74 O.S. § 212 and 74 O.S. § 227.8, respectively.

The Special Audit Division is also responsible for assisting the Attorney General's Office in their investigations as directed by 74 O.S. §18f. At the request of the Attorney General's Office, the audit staff will conduct limited examinations, reviews and investigative audits of the governmental entity being considered. These entities could include cities, towns, public trusts, schools, colleges, county government, state agencies, rural water districts, hospital authorities, boards or commissions and those directors or employees allegedly involved in the possible misuse of public funds.

This division, on occasion, may receive assistance from the County Audit Division to accomplish its mission. The Special Audit Division also resolved seventy-five (75) requests for an audit by cursory reviews and mediation with all parties concerned, without additional cost to the entity.

The Special Audit Division is responsible for assisting the Attorney General's Office in their investigations.

The State Agency Audit Division (SAAD) conducts financial and federal compliance audits, performance audits, and reviews of state agencies, boards and commissions. SAAD also receives several requests from legislators, agency heads and concerned citizens. These are conducted as special projects and reported thereon by audit or letter. During the year, special projects completed or in progress were:

- OESC Special audit on Welfare to Work and Workforce Investment Act - Phase II

The Division has two primary objectives: The State of Oklahoma Single Audit and the audit of the CAFR for the State of Oklahoma. The financial operations of all State agencies are included within the scope of the Comprehensive Annual Financial Report (CAFR) for the State of Oklahoma. The CAFR, which is prepared by the Office of State Finance, is audited annually by the Division. The State of Oklahoma has received the Certificate of Achievement for excellence in financial reporting from the Governmental Finance Officers' Association every year since 1996. Oklahoma is the first state in the nation to issue its CAFR under the new reporting model, GASB 34.

The federal funds expended by all State agencies (excluding colleges/universities and proprietary component units) are included within the scope of the State of Oklahoma Single Audit Report. The *Single Audit Report* prepared by the State Auditor and Inspector's Office has successfully met the requirements of the Single Audit Act and the Office of Management and Budget, Circular A-133. During fiscal year 2002, the State expended approximately \$3.4 billion in Federal assistance, excluding colleges/universities, and proprietary component units.

In addition to the primary office, the Division maintains branch offices at the Oklahoma Tax Commission, the Oklahoma Department of Transportation, the Oklahoma State and Education Employees' Group Insurance Board, and the Oklahoma Department of Human Services. These audits require on-site, year-round staffing due to agency size or as required by state statute.

The Division is responsible for special compliance-type audits of state institutions of the Oklahoma State System of Higher Education when requested in accordance with 74 O.S. §213(D) and

The State Agency Audit Division has successfully met all Federal audit requirements to ensure the continued flow of Federal funds to the State.

for special audits and investigations upon request of the Governor or Attorney General of the State of Oklahoma.

A complete listing of reports issued appears in the "Detailed List of Audit Coverage" at the back of this report.

Our office participates in a national organization to facilitate peer review. Peer reviews are conducted every three years to ensure audit agencies meet audit industry standards. The State Auditor and Inspector's office successfully passed its peer review for 2001. The State Auditor and Inspector's staff have assisted in peer reviews for the states of:

* North Dakota * Rhode Island *Illinois

The State Auditor and Inspector contracts with outside firms for various audits including the state's pension audits. Because the State Auditor and Inspector serves on some of these same boards and commissions, the office does not perform audits where independence is jeopardized. Other audits were contracted to outside firms for this annual period.

Agency	Audit Period Covered	Audit Firm
Okla. Public Employees Retirement System	Year ended June 30, 2001	Arthur Andersen
Okla. Public Employees Deferred Compensation Plan	Year ended June 30, 2001	Arthur Andersen
Uniform Retirement for Justices and Judges	Year ended June 30, 2001	Arthur Andersen
Okla. State Employees Group Insurance Plan	Year ended June 30, 2001	KPMG Peat Marwick
Teachers Retirement System of Oklahoma	Year ended June 30, 2001	KPMG Peat Marwick
Okla. Firefighters Pension & Retirement System	Year ended June 30, 2001	Finley & Cook
State Insurance Department	Year ended June 30, 2001	KPMG Peat Marwick
State Securities Commission	Year ended June 30, 2001	KPMG Peat Marwick
Law Enforcement Retirement System	Year ended June 30, 2001	Finley & Cook
Okla. Industrial Finance Authority	Year ended June 30, 2001	Arledge & Associates
Okla. Public Employees Retirement System - Deferred Savings Plan	Year ended June 30, 2001	Arthur Anderson
Commissioners of the Land Office	Year ended June 30, 2001	Knoll & Company, P.C.

* Performance Audits *

Title 74 O.S. Supp. 1997, §213.2 authorizes the State Auditor and Inspector to conduct performance audits on all public offices, institutions and other governmental entities and to instruct the proper officers thereof in the performance of their duties and to prescribe and enforce cost-effective methods of operations. The State Auditor and Inspector conducts performance audits authorized in this legislation upon receiving a written request to do so by the Governor, the chief executive officer of a governmental entity or pursuant to a concurrent resolution of the Legislature.

Performance audits have different objectives than annual financial audits of governmental entities required by Oklahoma Statutes and the Federal Government. Financial audits determine whether the financial statements of an audited entity are presented fairly and whether the entity has complied with laws and regulations for those transactions that may have a material effect on the financial statements.

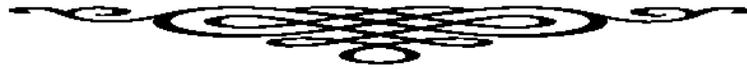
A performance audit includes economy and efficiency audits and program audits. Economy and efficiency audits determine whether the entity is using its resources economically and efficiently and the causes of inefficiencies or uneconomical practices. A program audit includes determining the extent to which the desired results or benefits established by the Legislature, or other authorizing body, are being achieved, and the effectiveness of organizations, programs, activities or functions.

Economy and efficiency audits determine whether the entity is using its resources economically and efficiently.

During the year, performance audits were completed for the Department of Wildlife and Oklahoma Educational Television. Performance audits in progress or planned for June 30, 2002 are:

- * Department of Corrections
- * Department of Tourism
- * Department of Health (Nursing Home Licensing)
- * Career Tech

Detailed Lists of Audit Coverage



Audit Reports Listing

County Government – Financial Audits

	02/02	Choctaw County Court Clerk	02/02
Adair County			
	02/02	Cimarron County	05/02
Alfalfa County			
	02/06	Cimarron County	04/02
Atoka County			
	05/02	City-County Health Department	02/02
Atoka County			
	05/02	Cleveland County	06/02
Atoka County Court Clerk			
	10/01	Cleveland County Court Clerk	02/02
Atoka County Court Clerk			
	01/02	Cleveland County Court Clerk	04/02
Beaver County			
	11/01	Coal County	02/02
Beckham County			
	05/02	Coal County Court Clerk	06/02
Blaine County			
	06/02	Coal County Court Clerk	01/02
Blaine County Court Clerk			
	01/02	Comanche County	11/01
Bryan County Court Clerk			
	05/02	Comanche County Special	02/02
Bryan County Court Clerk			
	05/02	Cotton County	01/02
Caddo County			
	04/02	Cotton County	02/02
Caddo County Court Clerk			
	11/01	Craig County	03/02
Canadian County			
	06/02	Creek County	02/02
Canadian County Court Clerk			
	06/02	Custer County	02/02
Carter County			
	03/02	Custer County	06/02
Carter County Court Clerk			
	02/02	Custer County Court Clerk	02/02
Carter County Court Clerk			
	02/02	Dewey County	08/01
Choctaw County			
	04/02	Dewey County Court Clerk	02/02
Choctaw County Court Clerk			

Ellis County	01/02	Hughes County Court Clerk	06/02
Ellis County	02/02	Hughes County Court Clerk	02/02
Garfield County	06/02	Jackson County Court Clerk	06/02
Garfield County Court Clerk	06/02	Jefferson County	06/02
Garvin County	12/01	Jefferson County	05/02
Garvin County Court Clerk	06/02	Johnston County	05/02
Garvin County Court Clerk	02/02	Johnston County	08/01
Grady County Court Clerk	06/02	Johnston County Court Clerk	04/02
Grant County	05/02	Johnston County Court Clerk	01/02
Grant County	05/02	Kingfisher County	01/02
Grant County Court Clerk	06/02	Kingfisher County Court Clerk	02/02
Greer County	09/01	Kiowa County	08/01
Greer County	04/02	Kiowa County	04/02
Greer County Court Clerk	09/01	Kiowa County Court Clerk	04/02
Harmon County	06/02	Latimer County	02/02
Harmon County	12/01	Latimer County Court Clerk	06/02
Harper County	12/01	Latimer County Court Clerk	02/02
Harper County	04/02	LeFlore County Court Clerk	06/02
Haskell County	04/02	LeFlore County Court Clerk	02/02
Haskell County	03/02	Logan County	06/02
Haskell County	02/02	Love County	12/01
Hughes County	06/02	Love County Court Clerk	02/02

Audit Reports Listing

Major County	06/02	Payne County	03/02
Major County Court Clerk	04/02	Pittsburg County	04/02
Marshall County	06/02	Pittsburg County Court Clerk	06/02
Marshall County Court Clerk	06/02	Pittsburg County Court Clerk	02/02
Marshall County Court Clerk	02/02	Pontotoc County Court Clerk	06/02
Mayes County	12/01	Pottawatomie County Court Clerk	02/02
McClain County Court Clerk	06/02	Pottawatomie County Court Clerk	06/02
McClain County Court Clerk	02/02	Pushmataha County	02/02
McCurtain County Court Clerk	06/02	Pushmataha County	01/02
McCurtain County Court Clerk	02/02	Pushmataha County	06/02
McIntosh County Court Clerk	06/02	Roger Mills County	02/02
McIntosh County Court Clerk	02/02	Rogers Mills County	12/01
Murray County	02/02	Seminole County	12/01
Murray County Court Clerk	06/02	Seminole County Court Clerk	09/01
Murray County Court Clerk	02/02	Seminole County Court Clerk	06/02
Noble County	02/02	Stephens County	02/02
Nowata County	08/01	Stephens County Court Clerk	12/01
Okfuskee County	06/02	Stephens County Court Clerk	06/02
Oklahoma County	02/02	Texas County	02/02
Oklahoma County CAFR	02/02	Tillman County	10/01
Ottawa County	03/02	Tulsa County	03/02
Pawnee County	01/02	Tulsa County CAFR	05/02

Tulsa County Employees Retirement	08/01
Washita County	01/02
Washita County	07/01
Washita County Court Clerk	04/02

Woods County Clerk	04/02
Woodward County	01/02
Woodward County Court Clerk	09/01

County Treasurer Reviews

Alfalfa County Treasurer	11/01	Garfield County Treasurer	04/02
Atoka County Treasurer	06/02	Garvin County Treasurer	03/02
Atoka County Treasurer	08/01	Garvin County Treasurer	04/02
Beaver County Treasurer	08/01	Grady County Treasurer	09/01
Beckham County Treasurer	11/01	Grady County Treasurer	12/01
Beckham County Treasurer	07/01	Grant County Treasurer	01/02
Bryan County Treasurer	08/01	Greer County Treasurer	12/01
Bryan County Treasurer	06/02	Harmon County Treasurer	01/02
Caddo County Treasurer	08/01	Harper County Treasurer	12/01
Canadian County Treasurer	03/02	Hughes County Treasurer	06/02
Carter County Treasurer	03/02	Hughes County Treasurer	08/01
Choctaw County Treasurer	08/01	Jackson County Treasurer	11/01
Choctaw County Treasurer	06/02	Jefferson County Treasurer	08/01
Cimarron County Treasurer	12/01	Jefferson County Treasurer	06/02
Cleveland County Treasurer	04/02	Johnston County Treasurer	08/01
Coal County Treasurer	08/01	Johnston County Treasurer	06/02
Coal County Treasurer	06/02	Kiowa County Treasurer	12/01
Comanche County Treasurer	04/02	Latimer County Treasurer	08/01
Cotton County Treasurer	06/02	Latimer County Treasurer	06/02
Custer County Treasurer	07/01	Leflore County Treasurer	08/01
Dewey County Treasurer	05/02	Leflore County Treasurer	06/02

Love County Treasurer	03/02	Pontotoc County Treasurer	06/02
Major County Treasurer	08/01	Pottawatomie County Treasurer	03/02
Marshall County Treasurer	06/02	Pushmataha County Treasurer	08/01
Marshall County Treasurer	08/01	Pushmataha County Treasurer	06/02
McClain County Treasurer	04/02	Roger Mills County Treasurer	11/01
McCurtain County Treasurer	08/01	Seminole County Treasurer	08/01
McCurtain County Treasurer	06/02	Seminole County Treasurer	06/02
McIntosh County Treasurer	08/01	Stephens County Treasurer	08/02
McIntosh County Treasurer	06/02	Stephens County Treasurer	06/02
Murray County Treasurer	03/02	Texas County Treasurer	09/01
Oklahoma County Treasurer	04/02	Tillman County Treasurer	06/02
Pittsburg County Treasurer	06/02	Washita County Treasurer	07/01
Pittsburg County Treasurer	08/01	Wood County Treasurer	09/01

County Officer Turnover Reviews

Caddo County Treasurer	08/01	Ottawa County Commissioner	04/02
Comanche County Court Clerk	02/01	Pittsburg County District Attorney	04/02
Delaware County Treasurer	04/02	Pottawatomie County Sheriff	02/02
Garvin County Sheriff	05/02	Tillman County Clerk	06/02
Greer County Treasurer	12/01	Tulsa County Assessor	09/01
Hughes County Commissioner	11/01	Wagoner County Commissioner	04/02
Johnston County EMS	07/01	Woods County Commissioner	09/01
Oklahoma County District Attorney	09/01	Woods County Assessor	07/01

Emergency Medical Districts

Bryan County EMS	10/01	Leedey Ambulance Service	11/01
Buffalo EMS	03/02	Love County EMS	06/02
Conton-Longdale EMS	12/01	Major County EMS	09/01
Cimarron County EMS	08/01	Major County EMS	06/02
Cimarron County EMS	12/01	McClain Grady EMS	06/02
Coal County EMS	10/01	Mountain View-Gotebo EMS	10/01
Creek County EMS	02/02	Muskogee County EMS	02/02
Ellis County EMS	10/01	Okeene EMS	04/02
Grady County EMS	04/02	Pauls Valley EMS	09/01
Greer Co. Special Ambulance	05/02	Pushmataha County EMS	06/02
Greer County EMS	09/01	Roger Mills County EMS	12/01
Hughes County EMS	01/02	Rural Southern Oklahoma EMS	05/02
Jackson County EMS	05/02	Southwest Ambulance Authority	10/01
Johnston County EMS	06/02	Tillman County EMS	03/02
Latimer County EMS	10/01	Vici-Camargo EMS	03/02
Laverne EMS	02/02	Woodward County EMS	10/01
Laverne EMS	02/02	Wynnewood EMS	02/02

Horse Racing Division

Blue Ribbon Downs Statistical	01/02	Statistical Report of Operations	02/02
Fair Meadows at Tulsa Simulcast	01/02	Tulsa County Fair	09/01
Remington Park Simulcast Days	01/02	Tulsa State Fair	09/01
Remington Park Thoroughbred Race	01/02	Will Rogers Downs Simulcast Race	01/02

Minerals Management Audit Division

Burlington Resources

Samson Resources

Marathon Oil Company

Vastar Resources

Various Stripper Royalty Rate Audits

<u>Agreements</u>	<u>Well Name</u>	<u>Operator(s)</u>
570-85C348-0	#1-34 & 3-34 Hepner	Kirkpatrick Oil & Gas Katsco Energy Anadarko Petroleum
570-85C377-0	Hepner A 1-27	Anadarko Petroleum
NM 75286-X	Goff Creek Unit	Anadarko Petroleum
893-000077-0	Pan Clem 1-9	Anadarko Petroleum
879-000020-0	#1 Kellogg 14 Unit	Continental Resources Petro Lewis
879-000018-0	Federal 1-14	Continental Resources Petro Lewis
894-000375-0	Hepner No. 1-33	Kirkpatrick Oil & Gas
894-000563-0	No. 1-25 Hepner	Kirkpatrick Oil & Gas
894-000689-0	Hepner #3-3	Kirkpatrick Oil & Gas
891-008951-0	Southwest Ringwood	Cross Timbers
893-000085-0	No. 1-26 Ellis	Samedan Oil Corporation Cross Timbers
893-000091-0	Caldwell Thompson	Rainbow Oil & Gas Cross Timbers
NM 75369-0	No. 1-3 Edwards K	Cross Timbers

Special Audits, Reviews and Reports

Central High School	03/02	Seminole Co. Court Clerk Special	06/02
Cimarron Industrial Park Authority	01/02	Stephens Country Rural Water District 3	02/02
City of Elmore City	01/02	Stephens County Fair Board	02/02
City of Morris	05/02	Town of Hanna	05/02
Comanche County Court Clerk Special	09/01	Town of Luther	12/01
Drumright Central Tech	05/02	Town of Porum	06/02
Granite Housing Authority	05/02	Town of Watts	02/02
Inola Public School	05/02	Wayne Senior Citizens Center	01/02
Leflore Public School	05/02	Wetumka School	01/02
Leflore County Treasurer Special	05/02	Wewoka School	01/02
Monkey Island Development Authority	01/02	White Oak Public School	05/02
Ottawa County Commissioner Special	06/02	Whitesboro Rural Water District 3	01/02
Pawnee Nation Housing Authority	01/02		
Rural Water Sewer & Solid Waste	07/01		

State Agencies, Boards and Commissions

Arts Council	06/02	Human Rights Commission	07/01
Career and Technology Education	12/01	J.M. Davis Memorial Commission	05/02
Children & Youth Commission	06/02	Law Enforcement Education	09/01
Commission of the Land Office	11/01	Liquified Petroleum Gas Board	05/02
Corporation Commission	10/01	Motor Vehicle Commission	06/02
Cosmetology Board	03/02	Narcotics & Dangerous Drugs	09/01
Deferred Compensation Plan	11/01	Nursing Home Administrators	05/02
Deferred Savings Incentive Plan	11/01	Oil and Gas Wells Commission	05/02
Dentistry Board	04/02	OPERS	11/01
Department of Veterans Affairs	10/01	Pardon and Parole Board	09/01
Department of Libraries	05/02	Peanut Commission	05/02
Department of Commerce	01/02	Petroleum Storage Tank Division	12/01
Department of Wildlife	12/01	PILT	03/02
Embalmers and Funeral Directors	02/02	Psychologist Examiners Board	09/01
Employees Benefit Council	09/01	Regents for Higher Education	06/02
Employment Security Commission	04/02	School of Science & Mathematics	06/02
Energy Resources Board	04/02	Science & Technology	06/02
Environmental Quality Waste Tire	03/02	Social Workers	02/02
Fire Marshal Commission	03/02	Space Industry Development	02/02
Firefighters Pension	09/01	State of Oklahoma Single Audit	05/02
Historical Society	06/02	Tax Commission	06/02

Audit Reports Listing

Tax Commission	11/01	Uniform Retirement-Justices/Judges	11/01
Teacher Preparation	05/02	Will Rogers Memorial Commission	08/01
Tourism & Recreation Department	04/02	Workers' Compensation Court	08/01

Performance Audits

Department of Wildlife

Oklahoma Educational Television Authority

District Attorney Audits

District Attorney Bob Macy	08/01	District Attorney Mitch Sperry	06/02
District Attorney Cathy Stocker	06/02	District Attorney Ray Don Jackson	09/01
District Attorney Cathy Stocker	06/02	District Attorney Ray Don Jackson	09/01
District Attorney Dianne Harrold	06/02	District Attorney Richard Dugger	04/02
District Attorney Don E. Wood	08/01	District Attorney Richard Dugger	10/01
District Attorney Don E. Wood	06/02	District Attorney Rob Hudson	05/02
District Attorney Frederick Esse	06/02	District Attorney Rob Wallace	05/02
District Attorney Gene Haynes	05/02	District Attorney Robert Christian	06/02
District Attorney James Thornley	06/02	District Attorney Robert Hudson	06/02
District Attorney John David Luton	06/02	District Attorney Robert Schulte	09/01
District Attorney John Wampler	09/01	District Attorney Robert Schulte	06/02
District Attorney John Wampler	05/02	District Attorney Thomas Giulioli	06/02
District Attorney Kalyn Free	05/02	District Attorney Thomas H. May	05/02
District Attorney Kay Christiansen	06/02	District Attorney Tim. Kuykendahl	06/02
District Attorney Larry D. Stuart	04/02	District Attorney Tim Harris	06/02
District Attorney Mark L. Gibson	05/02	District Attorney Walter Hamilton	06/02
District Attorney Max Cook	09/01	District Attorney William Peters	06/02

The Constitution of the State of Oklahoma provides for the office of the State Auditor and Inspector within the executive department to the government of the State of Oklahoma. (*Article VI, Section 1.A.*)

To be eligible to be elected State Auditor and Inspector, a person must be a citizen of the United States, 31 years of age, have been an elector of this state for 10 years (*Article VI, Section 3*), and have at least three years experience as a expert accountant. (*Article VI Section 19*).

The term of office is four years which runs concurrently with the other state elected officials. The State Auditor and Inspector may succeed himself. (*Article VI, Section 4*).

The State Auditor and Inspector has the duty to examine the books, accounts and cash on-hand or in bank of the State Treasurer and county treasurers at least twice each year without notice to such treasurers and to publish his report; to prescribe a uniform system of bookkeeping for all treasurers; and perform such other duties as may be prescribed by law. (*Article VI, Section 19*).

The State Auditor and Inspector has the constitutional duty to conduct an annual audit of the operations of each Emergency Medical Services District, (*Article X, Section 9C.(i)*) and each county solid waste management operation. (*Article X, Section 9D.L.*).

The State Auditor and Inspector serves as a member of the Commissioners of the Land Office (*Article VI, Section 32*), and as a member of the State Board of Equalization. (*Article X, Section 21*).